



FmHA AN No. 3075 (1940-L)
October 21, 1994

SUBJECT: Management of Fiscal Year 1995
Farmer Programs Direct Loan Allocations

TO: State Directors

ATTN: Farmer Programs Chiefs

Purpose/Intended Outcome:

The purpose of this AN is to provide guidance in the management of Farmer Programs direct loan fund allocations in Fiscal Year (FY) 1995.

Comparison with Previous AN:

There is no previous AN on this subject.

Implementation Responsibilities:

To obligate a direct loan, adequate funds are required in two accounts - the loan fund account and the subsidy account.

Levels for both loan program authority and loan subsidies were established for FY 1995 in the Appropriation Act for the Department of Agriculture. The appropriated levels of subsidy are not adequate to fund the entire amount of authorized program authority based upon historical patterns of loan obligations. Thus, availability of loans will be curtailed due to lack of subsidy.

Because of the limited availability of direct loans, loan approval officials should explore alternatives available for meeting the credit needs of FmHA customers. In an effort to make sufficient credit available, priority of funds is as follows: (1) Commercial credit without FmHA guarantee, (2) Commercial credit with FmHA guarantee, (3) Subordinations where possible to permit another lender to provide credit, (4) Direct loans at the regular interest rate, and (5) as a last resort, direct loans at the limited resource interest rate. Subordination authority needs to be utilized to its fullest in accordance with the regulations. Subordinations reduce the volume of demand for direct loans, but remember that FmHA Instructions 1962.30(a) and 1965.79(b) (2)

EXPIRATION DATE: September 30, 1995

FILING INSTRUCTIONS:
Preceding FmHA
Instruction 1940-L



require that the subordination will not adversely affect FmHA's security interest. There are additional requirements that must be met, so please keep those in mind when determining whether or not to subordinate.

If the only alternative available to provide assistance to a customer is through the use of the FmHA direct loan program, efforts must be made in the loan making process to use the limited subsidy in the most efficient manner possible. This is essential to assure that the credit needs of all eligible creditworthy applicants can be met. Some key points for efficient use of subsidy are:

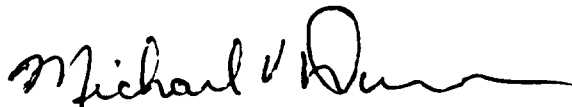
- (1) Assure that applicants receiving limited resource (LR) assistance are truly qualified and that the LR interest rate is truly necessary. The 10 percent cash flow margin for limited resource rate increases specified in Section 1951.25 of FmHA Instruction 1951-A does not apply to loan making. For example, if an applicant can cash flow a regular rate loan with a 5 percent margin, the loan must be made at the regular rate.
- (2) For OL loans, limit refinancing of non-FmHA debt to situations which are essential for continuing the farming operation. Help applicants develop workout plans for existing creditors to restructure their debts in lieu of FmHA refinancing.
- (3) Where possible, utilize other credit sources for capital expenditure items. Remember that guaranteed loans, rather than direct, are to be utilized for payment of such items (or any other loan purposes) if a lender is willing to make such a loan.
- (4) Because the loan term determines cohort and subsidy level, do not combine 7-year and annual production credit in one OL loan obligation. For example, if total OL credit needs are \$100,000, and \$80,000 is needed for annual operating expenses and \$20,000 is for a capital expenditure, subsidy obligations will be reduced by making two loans - an \$80,000 1-year loan and a \$20,000 7-year loan. Otherwise, the subsidy will be obligated at the 7-year rate for the entire loan amount.

FmHA does have the authority to move funds between cohorts for the same type of loan. (Ex: 1-year OL funds can be converted to 7-year OL funds). However, due to the potential subsidy shortage, requests for transfers of loan funds between these cohorts which would increase subsidy costs will not be granted until a determination can be made

that such a transfer will not inhibit maximum utilization of the programs on a National level.

In summary, loan approval officials are encouraged to develop innovative ways to extend credit to our farm customers without the use of FmHA direct loans. All unapproved direct applications should be reviewed to ensure that every avenue of assistance other than FmHA direct loans has been exhausted. For approved direct applications that are not yet funded because no funds are available, check to see if other means of assistance are now available and discuss the situation with the applicant.

Additional information on the impact of subsidy levels will be provided as it becomes available. Questions concerning this AN should be directed to the Farmer Programs Loan Making Division at (202) 720-1632.



MICHAEL V. DUNN
Administrator

Sent by Electronic Mail on 10-21-94 at 4:08pm by GSS. The State Director should advise other personnel as appropriate.